



2006

2007

Financial Statements

Contents

Chairman's Statement	3
Financial Review	5
Corporate Governance Statement	7
Auditors Report to the Members of Council	10
Accounting Policies	11
Consolidated Income and Expenditure Account	13
Balance Sheet	14
Consolidated Cash Flow Statement	15
Consolidated Statement of Total Recognised Gains and Losses	16
Notes to the Financial Statements	17
Five-Year Summary of Financial Position	34

I am pleased to present the University's Financial Statements for the year ending 31 July 2007, in what was in many ways a momentous year. While the financial results demonstrate continued successful development of the University - with turnover now exceeding £100m, a surplus for the year of £5.3m and capital investment of £15.8m – the financial statements do not fully convey the outstanding achievements made over the year.

During the year the University strengthened its claim to be the UK's leading centre for social science research. Essex is unique in the UK, with all of the three core social science disciplines – Economics, Government and Sociology – all rated 5* in the 2001 Research Assessment Exercise, an achievement that other leading centres of social science research in the UK cannot match. Our social science credentials were further strengthened in May when the University's Institute of Economic and Social Research (ISER) was awarded the largest ever research grant made by the Economic and Social Research Council (ESRC), amounting to £15.5m over a 5-year period, to establish the world's largest longitudinal household panel study, involving 40,000 households. This research will assist with understanding the long term effects of social and economic change. At the same time the University's other pre-eminent research centre, the UK Data Archive (UKDA), celebrated its 40th anniversary in 2007 and had its core funding renewed, amounting to £10.1m over 5 years. Underlining the importance of these achievements, both ISER and UKDA moved into the newly completed Social Science Research Centre building. At a total cost of £6.9m, largely funded through the Government's Science Research Investment Fund, this first-rate facility reflects the quality of social science research undertaken by Essex academics.

In January 2007, the University opened the doors to its newly established Southend campus, with a £30m building and the establishment of a new academic school – the School of Entrepreneurship and Business. The campus is co-located with the University's partner, the South East Essex College, and in addition to business, will teach health related subjects and performing arts. A new foundation degree in Oral Health Sciences has been launched which will complement the

University's partnership with the Queen Mary London School of Medicine and Dentistry, who have established a facility in the new building to teach dental students. The creation of 'East15@Southend' is set to establish a substantial presence in Southend and the performing arts will feature prominently in the future development of the Southend campus. As student number growth is delivered, the campus will add to the academic diversity of the University as well as providing a solid contribution to its financial health.

At the core of the University's strategic plan is teaching and research excellence, growth and diversification of activity and an increasing regional presence. The examples that I have outlined, all achieved over the last 12 months, exemplify the University's dynamic ability to turn strategic plans into concrete reality.

Much of the credit for the University's remarkable development over the last decade belongs to Sir Ivor Crewe, Vice-Chancellor for the last 12 years, who stepped down in September 2007. Sir Ivor has led the University through a transformation over the last decade, maintaining its international reputation for research and teaching quality whilst expanding its size and increasing its regional presence. The University has undergone immense change. Not only has this included the expansion of student numbers but the formation of numerous partnerships including the Research Park, SEEC partnership and University Campus Suffolk to name only three. The assimilation of the East 15 Acting School in Loughton provided the University with its first new campus outside of Colchester and this has now been followed by the establishment of the new Southend campus. The Colchester campus has not been neglected with substantial investment in new facilities and buildings such as the Networks Centre, Social Science Research Centre, a 1,000 seat Lecture Hall, University Quays and a suite of newly refurbished Students' Union facilities. One of Sir Ivor's final initiatives was to oversee the completion of a new partnership between the University and Kaplan Open Learning to provide on-line foundation degrees throughout the UK.

It is these types of development that will secure the University's academic and financial future. It was entirely appropriate therefore,

that Council decided to name the newly opened and architecturally striking 1,000 seat lecture hall, the 'Sir Ivor Crewe Lecture Hall'. I am sure every member of the University wishes Sir Ivor well as he takes up the post of Master of University College, Oxford next year.

Having been Chairman of Council of the University for the last 6 years, it has been a pleasure to have been party to the development of the University, over this period of sustained growth and change. Particularly pleasing is that during this time the University has consistently maintained sound finances and, as the Financial Review that follows demonstrates, the University continued its record of robust financial health over the last financial year. However, the record surplus for the year masks an operating deficit, reflecting difficult market conditions and a stubbornly high cost base. The new Vice Chancellor has already started to tackle this, developing a new financial strategy that will aim to achieve a recurrent surplus of 5% of total income.

I will be stepping down from my role as Chairman and as a member of Council in December 2007. I am pleased that the University has been able to appoint Professor Colin Riordan as Vice-Chancellor, joining us from the University of Newcastle-upon-Tyne and Bill Gore as the new Chairman of Council. I wish them and the University well.

Tim Melville-Ross CBE
Chairman of Council

Financial Highlights

These financial statements cover the University of Essex group, including the University and all its subsidiary undertakings (see note 30). Highlights of the year are given below (with 2005/06 comparatives shown in brackets)

Total income of £100.7m, up 9.1%
Surplus for the year of £5.3m (*£3.2m in 05/06*)
Deficit for the year on continuing operations (excluding asset sales and joint ventures) of £861k (*surplus of £3.2m in 05/06*)
Capital expenditure of £15.8m (*£23.7m*)
Operating cash inflow of £2.1m (*£8.4m*)
Net debt of £25.7m (*£27.0m*)
Net assets of £93.6m (*£77.6m*)

Income & Expenditure

The surplus for the year of £5.3m includes the profit on the disposal of a property of £6.1m. If this transaction is excluded a deficit for the year of £861k was made on continuing operating activities.

Total income increased by 9% over the year, driven by a 32% increase in tuition fee income from home and EU students and an increase of funding council grants of over 12%. The year saw the first home and EU undergraduate cohort paying the new £3,000 tuition fee compared to £1,200 previously paid. Gratifyingly, the increase in tuition fees has not had any discernable effect on student recruitment. The increase in funding council grants largely relates to increased research block grant and grants for specific initiatives but these are matched by increases in expenditure. Income from research grants and contracts fell by 6% over the year as earned income from research grants and contracts funded under the Full Economic Cost (FEC) initiative grew at a rate that was insufficient to compensate for the loss of £1m of FEC transitional grant received in 2005/06.

Whilst total income has grown at a rate well above inflation, this has coincided with a deficit on operating activities. This is due to a number of factors. Staff costs increased by over 7% as the University implemented the national 'Framework Agreement' on pay. The volume of teaching and research activity hardly changed over the year and this fact

combined with the increase in staff costs has more than absorbed the new income stream arising from the introduction of variable tuition fees. The new building in Southend was commissioned in January leading to a significant increase in premises costs and depreciation charges that has not yet been matched by a growth of income.

The University also incurred some unusual and large non-recurrent expenditure that has largely contributed to the reported deficit on continuing operations. As the second stage of a staff cost reduction exercise comes to completion, £654k was spent on severance packages. The recurrent benefits of this 'investment to reduce cost' will flow through in the subsequent years. It is likely that expenditure on severances at this level will be a feature of University life for the next few years.

In recognition of the first class contribution that the Student's Union have made to the development of student social facilities and the student experience in general, Council agreed to cancel all outstanding debt owed by the Students' Union to the University. Cancelling £741k of debt, a cost against the University's surplus for the year, shows that the University is serious about investing in student facilities and about partnering with the Students' Union to help ensure that students receive a first rate student experience.

Capital Investment

Total capital expenditure of £15.8m (£23.6m in 05/06) was funded by £9.8m from external capital grants, leaving the University to fund £6m from its own resources.

During the year the new Southend building was completed at a total cost of £24.6m, the Ivor Crewe Lecture Hall was completed at a cost of £6.1m and the Social Science Research Centre was completed at a cost of £6.5m.

Cash and Debt

Cash inflow from operating activities was £2.1m (£8.4m in 05/06).

Cash balances, including short-term deposits, ended the year at £14.4m (£15.1m in 05/06).

Total borrowing debt stood at £40.6m at 31 July 2007. The University's two variable rate loans are hedged by interest rate swaps, ensuring that 68% of the University's interest payments are fixed, providing some protection against any adverse movements on interest rates. Total net debt amounted to £25.7m.

Pension Funds

The balance sheet shows a pension fund deficit of £12.4m (£14.3m in 05/06) relating to the University's two support staff defined benefit pension schemes. Both of these schemes are closed to new entrants. Most University staff belong to the Universities Superannuation Scheme (USS) and all new members of staff are offered membership of this scheme. USS is a pooled scheme so it is not possible to separately identify the share of its assets and liabilities that relate to the University so its financial position is not reflected in the balance sheet.

Future Outlook

Comment has been made that the new variable tuition fee system had no discernable impact on student recruitment last year. This has been reinforced by the University's experience of recruitment in October 2007 at its highest ever level, showing year-on-year growth of 6% for Home/EU students. As successive cohorts of undergraduates enter the University so new income streams from variable tuition fees will ramp up, reaching steady state by 2008/09.

Equally gratifying is that overseas student recruitment in October 2007 is also on the upturn, having increased by 17% over the year, following two years of decline or low growth. Competition is considerably more intense and overseas students are increasingly more discerning about their choice of University so to see the University's recruitment, which is already high in absolute terms, begin to increase again is welcome news.

The University's activities at Southend will continue to grow, having acquired a former church in September 2007 to accommodate performance space for the East15 Acting School.

Currently under construction on the Colchester campus are new buildings for the Health and Human Sciences and the Psychology departments, providing additional capacity to accommodate growth.

The results of the actuarial valuations from the University's two support staff pension schemes are expected by December. The likelihood is that despite improvements in investment returns, pension liabilities will have risen because of improved longevity and higher than assumed pay awards. This could therefore translate into an additional cost burden for the University to fund from 2008/09 onwards.

The University has adopted a new investment led financial strategy which will be targeting substantial improvements in student facilities and in research activity. To fund this, and to provide much needed financial headroom, a further exercise aimed at reducing staff costs will be implemented during 2008. This will be combined with some internal re-organisation of budget accountability structures designed to ensure that budget managers are held more accountable for delivering targets so that Council can have confidence that the University's overall surplus target of 5% will be achieved and that investment can confidently take place. The combination of all of these changes will place the University on a solid and sustainable financial footing.

Corporate Governance and Accountability Arrangements

The University is a body incorporated by Royal Charter. The University's governing body is Council, which is committed to achieving high standards of corporate governance, in line with accepted best practice. Accordingly Council believes it is appropriate to report on how the University has applied the principles set out in the Combined Code issued by the Financial Reporting Council on 23 July 2003.

Recent Developments in Corporate Governance

In November 2004 the Committee of University Chairman (CUC) issued a guide for Members of Higher Education Governing Bodies in the UK, which incorporates a Governance Code of Practice. This code is voluntary and is intended to reflect good practice in a sector that comprises many diverse institutions. Institutions should state they have regard to the code, and where an institution's practices are not consistent with the code, an explanation should be published in the corporate governance statement in the annual audited financial statements.

In line with the CUC guidance the University's Council is committed to keeping its effectiveness under regular review. The last review was conducted during 2005 by a working party of Council members. The recommendations made were adopted by Council and as a result the University's Charter, Statutes and Ordinances have been completely revised, modernising them and incorporating best practice. The University's revised Charter and Statutes were approved by the Privy Council in June 2007 and will be effective from August 2007. During the last financial year the University was not compliant with one element of the code relating to the size of the governing body. With 34 members and two vacancies this exceeded the recommended maximum membership of 25. From 1st August 2007 Council will be fully compliant with the code with a membership of 25.

The University Council

The University's Council comprises ex officio and co-opted external members, students, ex officio employees, employees elected by Senate and members appointed by Court. The roles of Chancellor and Pro-Chancellors (including the Chair of Council) are separated from the role of the University's chief executive, the Vice-Chancellor.

The Council of the University has adopted a Statement of Primary Responsibilities which is published on the University website. The statement sets out the Council's responsibilities in respect of powers of appointment and employment, financial and legal powers, planning, monitoring, control and student welfare.

The Council has the following committees: Audit and Risk Management, Finance and Strategy, Nominations, Remuneration and Health and Safety. All of these committees are formally constituted with published terms of reference. With the exception of the Health and Safety Committee, the chair of each committee is a lay member of Council. The disclosures in relation to these committees follow those in respect of Council itself.

The Council met six times during the year. Of the 34 members of Council a majority are lay members drawn from outside the University.

The Committees of Council

In respect of its development, strategic management and financial responsibilities the Council receives recommendations and advice from the Finance and Strategy Committee. The Committee met six times during the year.

The Nominations Committee makes recommendations for the appointment or re-appointment of members of Council, its committees and Court. The Committee met twice during the year.

The Remuneration Committee determines the annual remuneration of the most senior staff, including the Vice-Chancellor. Employee members have no involvement in determining their own salaries. The Committee met once during the year.

The Health and Safety Committee reports to the Council at least annually on health and safety matters including compliance with government legislation and regulations. The Committee met twice during the year.

The Audit and Risk Management Committee comprises solely external members, three of whom are lay members of Council, and has no executive responsibility. The Committee has members with recent relevant financial experience in line with HEFCE guidance. The Audit and Risk Management Committee relies on the work of internal and external audit, on information provided by management and on the response of management to the questions it raises. The Committee met three times in the year.

The responsibilities of the Audit and Risk Management Committee include:

- reporting to Council annually on the effectiveness of the internal control system and the pursuit of value for money, together with an opinion on risk management.
- advising on the appointment of the internal auditor and approval of the internal audit plan.
- receipt of both an annual report from internal audit, which includes an opinion of the effectiveness of the University's system of internal control, and reports on each assignment including recommendations.
- advising the Council as necessary on the appointment of external auditors, to receive their reports and review their performance and effectiveness.

Internal Audit are responsible for providing an objective and independent appraisal of all the University's activities. The internal audit work programme is risk-based and is updated to take account of changes in the University's risk profile. Progress made on recommendations by the University are monitored by Internal Audit and reported to the Audit and Risk Management Committee.

The University Senate

The Senate is the highest academic authority of the University. It is responsible for the promotion of academic work in both teaching and research, for the regulation of educational arrangements and the maintenance of discipline. It receives quality audit reports from both the Quality Assurance Agency and in-house departmental reviews. Currently it has 10 representatives on Council each appointed for two years, which will reduce to six representatives from 1st August 2007, following Privy Council approval.

A review of the effectiveness of Senate was conducted in 2006 and a number of recommendations to improve its operation were adopted. Some of the recommendations required Privy Council and, this having been received during the year, the role and composition of Senate has been changed with effect from 1st August 2007.

The University Court

The University Court is a formal body established under the Charter and Statutes whose main function is to provide a forum for the official receipt of the Annual Report and Financial Statements. It is also responsible for the formal appointment of the Chancellor and Pro-Chancellors. The Court has three lay representatives on the University Council, who serve for a period of three years.

The role of Court was considered as part of the review of the effectiveness of Council in 2005 and a number of recommendations were made, principally to transfer certain powers of the Court to Council. Privy Council approval having been received for these changes during the year the recommendations were implemented with effect from 1st August 2007.

Responsibilities of the Council

The Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Council is responsible for ensuring proper accounting records are kept. These should disclose with reasonable accuracy at any time

the financial position of the University and its subsidiary undertakings and enable Financial Statements to be prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. Within the terms and conditions of a Financial Memorandum agreed between the HEFCE and the Council of the University, the Council, through its designated office holder, is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the University and its subsidiary undertakings and the surplus or deficit and cash flows for the year.

In the preparation of the Financial Statements, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed;
- Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation.

The Council has taken reasonable steps to:

- ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the HEFCE and any other conditions which the HEFCE may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and its subsidiary undertakings and to prevent and detect fraud;
- secure the economical, efficient and effective management of the resources and expenditure of the University and its subsidiary undertakings;

- ensure that processes operate within the University to identify, evaluate and manage significant risks and to review the effectiveness of the system of internal control.

The key elements of the University's system of internal control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and authority delegated to, heads of academic departments and administrative sections;
- a short and medium term planning process, supplemented by detailed annual income, expenditure and capital budgets;
- regular reviews of academic performance and financial results involving variance reporting and updates of financial outturns;
- defined and formalised requirements for the approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to appropriate levels set by Council;
- Financial Regulations, including financial controls and procedures, approved by the Audit and Risk Management Committee;
- a professional internal audit team whose annual programme is approved by the Audit and Risk Management Committee.
- a Risk Register which contains weightings (of likelihood and impact) linked to the Strategic Plan which also informs the internal audit planning process.

Any system of internal control or risk management is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Corporate Governance Statement

The following table illustrates the attendance of members of the University Council at key committees:

Name	Council		Audit & Risk		Finance & Strategy		Nominations		Remuneration	
	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended
Mr Gareth Barrett	6	5								
Mr Allan Blundell	6	5								
Dr Leon Burnett	6	6								
Prof Joan Busfield	6	5			9	8				
Prof George Cairns	4	3								
Ms Nicola Colston	6	5	3	3						
Mr Andrew Connolly					9	8				
Mr Tom Cornford	6	5								
Sir Ivor Crewe	6	6			9	9	3	3	1	1
Prof Andy Downton	6	5			9	9				
Mrs Celia Edey	6	4								
Dr Tony Elston	6	4								
Mrs Julie Garbutt	6	4					3	1		
Mr Bill Gore	6	4			9	7				
Mr Derek Lewis	6	6			9	9			1	1
Mr Bob Mack	4	4								
Dr Aulay Mackenzie	6	6								
Prof Rob Massara	6	6			9	8				
Prof Jackie Masterson	1	0								
Ms Hannah McFaul	6	5								
Mr Tim Melville-Ross	6	5			9	9	3	3	1	1
Sir Robin Mountfield	6	4			9	7				
Lord Newton	6	3								
Prof Richard Nicol	6	2	3	1					1	1
Prof Jules Pretty	6	6								
Mr Peter Rainbird	6	6	3	2						
Prof Mark Sacks	1	1								
Prof Nigel South	6	5			9	9				
Mrs Rosy Stamp	6	5							1	0
Dr Sam Steel	6	5								
Ms Auriol Stevens	6	6			9	8	3	3		
Prof Maurice Sunkin	6	6					3	3		
Prof Christine Temple	6	4			9	7				
Mr Phillip Tolhurst	6	3			9	4			1	1
Dr Bob Watt	6	6								
Dr Tony Rich	6	5			9	9	3	3	1	1
Mrs Sue Endean									1	1
Mr Peter Giblin			3	2						
Mrs Elizabeth Lloyd			3	3						

We have audited the financial statements of the University of Essex for the year ended 31 July 2007 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement and the related Notes to the Financial Statements 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University of Essex, as a body, in accordance with the Financial Memorandum dated July 2006. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and Auditors

As described in the statement of the Council's responsibilities, the Council is responsible for the preparation of the financial statements in accordance with the University's statute, the Statement of Recommended Practice on Accounting for Further and Higher Education and other applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education. We also report whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by University of Essex have been properly applied only for the

purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We also report if, in our opinion, the Financial Review is not consistent with the financial statements, if the University of Essex has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Financial Review, including the corporate governance statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- (a) The financial statements give a true and fair view of the state of affairs of the University of Essex and the Group as at 31 July 2007 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;
- (b) In all material respects income from Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University of Essex have been applied only for the purposes for which they were received; and
- (c) In all material respects income has been applied in accordance with the University of Essex's statutes and, where appropriate, with the Financial Memorandum, dated July 2006 with the Higher Education Funding Council for England.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
St. Albans, United Kingdom
26th November 2007

Accounting Convention

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments and endowment asset investments, and in accordance with both the Statement of Recommended Practice - Accounting for Further and Higher Education (SoRP) and applicable accounting standards and Financial Reporting Standards.

Basis of Consolidation

The Financial Statements comprise the consolidated results of the University of Essex and its subsidiaries (Note 30) and the University's share of the results and reserves of its joint venture companies. These subsidiaries undertake activities which, for legal and commercial reasons, are more appropriately operated through limited companies. Their activities include conferences and services for a wide variety of commercial organisations and individuals, the rental of student residences, the acquisition, protection and licensing of intellectual property from the University and the holding of land pending its development as a Research Park. The subsidiary companies transfer all taxable profits to the University through Gift Aid. Joint ventures are consolidated according to the proportionate share the University has in each.

The consolidated Financial Statements do not include those of the University of Essex Students' Union. The grant to the Students' Union is disclosed in Note 8, and the Union's financial results are summarised in Note 32.

Recognition of Income

Income from HEFCE recurrent grants is included net of grant paid over by the University to its partner colleges. Income from HEFCE revenue grants for specific initiatives is included to the extent that expenditure is incurred during the year. Grants received in respect of expenditure on fixed assets are treated as deferred capital grants and released to the income and expenditure account in line with depreciation, over the life of the asset.

Income from research grants and contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs. All other income from endowments, short-term deposits and other investments is credited to the Income and Expenditure Account on a receivable basis.

Provisions

Provisions are recognised when the University has a present legal or constructive obligation as result of a past event when it is probable that a transfer of economic benefit will be incurred, and this transfer can be reliably estimated.

Pension Schemes

The University has three principal pension schemes for employees. These are the Universities Superannuation Scheme (USS) for academic and related staff, and the Local Government Pension Scheme (LGPS) and the University of Essex Pension Scheme (UEPS) for other staff. The assets of the schemes are held in separate trustee-administered funds. All three schemes are defined benefit schemes and are contracted out of the State Second Pension (SP2).

The University is unable to identify its share of the underlying assets and liabilities of the USS scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The assets of the LGPS and UEPS are measured using closing market values. LGPS and UEPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising

from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Provision has been made to meet a past service shortfall of members of the Local Government Pension Scheme who took early retirement. The payments made to these members are largely set against this provision.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the year-end rate of exchange. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Investments

Fixed asset investments and endowment asset investments are included in the Balance Sheet at market value unless the market value cannot be readily ascertained and the yields are unquantifiable and of a long-term nature, such as seedcorn funds. In such instances, it is considered prudent to charge the cost of the investment to the revenue account in the year of its acquisition. Increases or decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where a permanent diminution in value of an asset occurs, the excess will be charged to the Income and Expenditure Account to the extent that it is not covered by a revaluation surplus. The profit or loss on the disposal of an asset is accounted for in the year in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost or valuation.

Investments in equities and gilts are generally treated as fixed asset investments whilst investments in the form of term deposits with banks and other financial institutions are shown as current asset investments.

Current asset investments are included at the lower of cost and net realisable value.

Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are, in practice, available within 24 hours without penalty. No investments, however liquid, are included in cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and other investments held as part of the University's treasury management activities. They exclude such assets held as endowment asset investments.

Maintenance of Premises

The University has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of all maintenance is charged to the Income and Expenditure Account as incurred.

Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988.

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

Land and Buildings

Land and buildings are stated at cost. Land is held freehold and is not depreciated as it is considered to have an indefinite useful life. Buildings are generally depreciated over their expected useful lives of 50 years, except for certain minor works for which a 20-year depreciation policy had been adopted.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

Equipment

Equipment, including computer hardware and software, costing less than £25,000 per individual item or group of related items which together comprise one operational unit, is written off in the year of acquisition.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

- motor vehicles and other general equipment - between five and ten years dependent upon the expected useful life;
- computer equipment - three years;
- equipment acquired for specific research projects - project life (generally three years).

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

Stocks

The stocks are stores for general maintenance, catering supplies of food and liquor, computers and computer spares, science workshop stocks held centrally for the science departments, stationery and consumables. They are valued at the lower of cost or net realisable value.

Financial Instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Consolidated Income and Expenditure Account

For the year ended 31 July 2007

	Note	2006-07 £'000	2005-06 £'000
Income			
Funding council grants	1	33,741	29,996
Tuition fees and educational contracts	2	30,303	26,028
Research grants and contracts	3	14,268	15,203
Other income	4	22,107	20,893
Endowment and investment income	5	1,247	1,153
		101,666	93,273
Less: share of income in joint venture		(971)	(899)
Total income		100,695	92,374
Expenditure			
Staff costs	7	62,736	58,147
Other operating expenses	8	32,237	25,458
Depreciation	10	3,932	3,030
Interest payable	9	2,651	2,480
Total expenditure	10	101,556	89,115
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		(861)	3,259
Share of loss in joint ventures		(11)	(15)
(Deficit) surplus on continuing operations after depreciation of tangible fixed assets and joint ventures losses and after tax		(872)	3,244
Profit on disposal of fixed assets		6,151	0
Surplus for the year		5,279	3,244
The surplus for the year has been allocated as follows:			
Transfer of deficit from endowment funds		(16)	(5)
Transfer of surplus to general reserve	6	5,295	3,249
Surplus for the year		5,279	3,244

The Income and Expenditure Account is in respect of continuing activities.

Balance Sheet

As at 31 July 2007

	Note	2006-07 £'000	Consolidated 2005-06 £'000	2006-07 £'000	University 2005-06 £'000
Fixed assets					
Tangible fixed assets	11	128,882	117,366	105,996	94,012
Investments	12	309	309	15,392	15,392
Investment in joint ventures					
Share of gross assets		10,098	819	0	0
Share of gross liabilities		(10,358)	(1,218)	0	0
		128,931	117,276	121,388	109,404
Endowment assets	13	12,647	11,970	12,647	11,970
Current assets					
Stocks and stores		291	471	273	456
Debtors	14	5,879	6,181	7,103	6,318
Debtors - amounts due after more than one year	14	750	741	21,404	22,389
Investments		9,873	12,364	9,873	12,364
Cash at bank and in hand		4,514	2,790	3,558	1,966
		21,307	22,547	42,211	43,493
Creditors - amounts falling due within one year	15	(17,119)	(18,536)	(16,927)	(18,281)
Net current assets		4,188	4,011	25,284	25,212
Total assets less current liabilities		145,766	133,257	159,319	146,586
Creditors - amounts falling due after more than one year	16	(38,592)	(40,622)	(38,592)	(40,622)
Provisions for liabilities and charges	17	(1,217)	(805)	(1,217)	(805)
Net assets excluding pension liability		105,957	91,830	119,510	105,159
Pension liability	29	(12,383)	(14,257)	(12,383)	(14,257)
Net assets including pension liability		93,574	77,573	107,127	90,902
Deferred capital grants and gifts	18	51,719	43,638	51,719	43,638
Endowments					
Specific	19	2,608	2,522	2,608	2,522
General	19	10,039	9,448	10,039	9,448
		12,647	11,970	12,647	11,970
Reserves					
Income and expenditure account excluding pension reserve	21	41,477	36,108	55,030	49,437
Pension reserve	29	(12,383)	(14,257)	(12,383)	(14,257)
Income and expenditure account including pension reserve	21	29,094	21,851	42,647	35,180
Revaluation reserve	20	114	114	114	114
		29,208	21,965	42,761	35,294
Total Funds		93,574	77,573	107,127	90,902

The Financial Statements on pages 11 to 33 were approved by the Council of the University on 26 November 2007 and signed by:

PROFESSOR C RIORDAN
Vice-Chancellor

T MELVILLE-ROSS
Chair of Council

A. CONNOLLY
Director of Finance

Consolidated Cash Flow Statement

For the year ended 31 July 2007

	Note	2006-07 £'000	2005-06 £'000
Net cash inflow from operating activities	23	2,172	8,373
Returns on investments and servicing of finance	24	(1,404)	(1,303)
Capital expenditure and financial investment	25	492	2,328
Management of liquid resources	26	2,494	(11,963)
Financing	27	(2,030)	(2,030)
(Decrease)/increase in cash in the year	28	1,724	(4,595)

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the year		1,724	(4,595)
Cash (inflow)/outflow from management of liquid resources	26	(2,494)	11,963
Changes in net debt from cash flows	27	2,030	2,030
Movement in net debt in the period		1,260	9,398
Net debt at 1 August 2006	28	(26,979)	(36,377)
Net debt at 31 July 2007	28	(25,719)	(26,979)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2007

	Note	2006-07 £'000	2005-06 £'000
Surplus on continuing operations after depreciation of assets at cost and tax		5,279	3,244
Appreciation of investments	12	0	5
Appreciation of endowment asset investments	19	679	1,019
New endowments	19	14	4
Actuarial gain (loss) in respect of pension schemes	29	1,948	(232)
Total recognised gains relating to the year		7,920	4,040
Prior year adjustment in respect of FRS 17	33	0	(14,567)
Total recognised (losses) / gains since last report		7,920	(10,527)
Reconciliation			
Opening reserves and endowments		48,192	
Opening pension reserve		(14,257)	
Recognised gains relating to the year		7,920	
Closing reserves and endowments		41,855	

Notes to the Financial Statements

For the year ended 31 July 2007

	2006-07 £'000	2005-06 £'000
1. Funding council grants		
Recurrent (teaching)	18,284	16,969
Recurrent (research)	10,412	9,752
Recurrent (other)	0	11
Special initiatives	3,855	2,460
Deferred capital grants released in year - buildings (note 18)	880	781
Deferred capital grants released in year - equipment (note 18)	310	23
	33,741	29,996
2. Tuition fees and educational contracts		
Full-time HE tuition fees		
UK and EU students charged home fees	10,457	7,897
Students charged overseas and other fees	14,691	14,257
Part-time credit-bearing HE tuition fees	764	635
Non-credit-bearing tuition fees	2,568	2,083
NHS contracts	1,622	936
Research support grants	201	220
	30,303	26,028
3. Research grants and contracts		
Research Councils	9,825	10,382
UK-based charities	962	1,163
UK central government, local authorities, health and hospital authorities	1,094	1,126
UK industry, commerce and public corporations	536	760
European Union government bodies	1,277	1,149
Other overseas	356	403
Other sources	165	167
Deferred capital grants (non-funding council) released in year - equipment (note 18)	53	53
	14,268	15,203
4. Other income		
Other services rendered:		
Course validation fees	1,202	521
UK central government, local authorities, health and hospital authorities	523	596
UK industry, commerce and public corporations	325	469
European Union government bodies	72	78
European Union other	5	10
Other overseas	20	1
Other sources	170	187
Residences, catering and conferences	14,063	13,838
Deferred capital grants (non-funding council) released in year - buildings (note 18)	441	55
Day Nursery	824	822
Other income	3,491	3,417
Income from joint ventures	971	899
	22,107	20,893

Notes to the Financial Statements

For the year ended 31 July 2007

	2006-07 £'000	2005-06 £'000
5. Endowment and investment income		
Income from fixed asset investments	6	15
Income from specific endowment asset investments (note 19)	107	98
Income from general endowment asset investments (note 19)	349	331
Income from current asset investments	785	709
	1,247	1,153

6. Surplus on continuing operations for the year

The surplus on continuing operations for the year is made up as follows:

University's surplus for the year	5,259	3,135
Surplus generated by subsidiary undertakings and transferred to the University under gift aid	260	426
Other deficits generated by subsidiary undertakings and joint ventures	(240)	(312)
	5,279	3,249

7. Staff costs

Wages and salaries	51,780	48,400
Social security costs	4,226	3,919
Other pension costs (including FRS 17 adjustments as per note 29)	6,730	5,828
	62,736	58,147

Emoluments of the Vice-Chancellor for year to 31 July	179	169
---	-----	-----

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. In addition to this, the University's pension contributions to USS are paid at the same rate as for other employees, and for the Vice-Chancellor these amounted to £27,626 (2005-06 £26,098).

No higher paid member of staff received compensation for loss of office during the two years to 31 July 2007.

Remuneration of higher paid staff, excluding employer's pension contributions:

	Number of staff	Number of staff
£70,000-£79,999	22	11
£80,000-£89,999	5	3
£90,000-£99,999	0	1
£100,000-£109,999	0	0
£110,000-£119,999	1	0
	28	15

The average monthly number of staff (including senior post-holders) employed by the University and its subsidiaries during the year, expressed as full-time equivalents by grade, was:

Academic staff	521	514
Research staff	121	135
Senior support staff	291	265
Other support staff	279	295
General support staff	431	432
	1,643	1,641

Notes to the Financial Statements

For the year ended 31 July 2007

	2006-07 £'000	2005-06 £'000
8. Other operating expenses		
Audit fees	109	68
Books and periodicals	1,519	1,374
Consumables and laboratory expenditure	1,144	888
Early retirements and severances	654	327
Equipment	1,887	2,464
Food and Drink	856	803
Gas, water and electricity	2,780	2,247
Grants to Students' Union	925	394
Insurance	458	384
Long-term maintenance programme	2,156	1,893
Minor works	432	252
Other expenses	5,068	4,758
Postage and telephones	788	821
Printing and stationery	962	934
Professional and consultancy fees	3,493	1,384
Provision for pension liabilities for part-time staff	398	0
Rates and rental of premises	402	386
Repairs and routine maintenance of estates	1,956	1,380
Research survey fieldwork	1,669	1,648
Scholarships (fee waivers and bursaries)	1,832	1,553
Student Union debt written off	741	0
Travel and subsistence	2,008	1,500
	32,237	25,458

Audit fees include:		
External audit	59	47
Other services supplied by external audit	50	21
	109	68

9. Interest payable		
Loans not wholly repayable within five years	2,310	2,369
Net pension finance costs	341	111
	2,651	2,480

10. Analysis of 2006-07 Expenditure by activity

	Staff costs £'000	Other operating expenses £'000	Depreciation £'000	Interest paid £'000	Total £'000	2005-06 £'000
Academic departments and centres	33,540	4,131	124	0	37,795	35,855
Academic services	4,506	4,744	0	0	9,250	6,117
Research grants and contracts	7,078	4,160	53	0	11,291	11,470
Residences, catering and conferences	3,813	4,960	1,185	2,165	12,123	11,959
Premises	3,830	4,426	2,491	143	10,890	9,203
Administration	6,355	2,937	64	0	9,356	6,982
Other services rendered	448	455	0	0	903	1,161
General educational	974	2,479	0	0	3,453	2,804
Student and staff facilities	2,065	1,491	4	10	3,570	2,674
Early retirements and severances	0	654	0	0	654	327
Other expenses	127	1,800	11	333	2,271	563
Total per income and expenditure account	62,736	32,237	3,932	2,651	101,556	89,115

The depreciation charge has been funded by:

Deferred capital grants released (Note 18)	1,684
General income	2,248
	3,932

Notes to the Financial Statements

For the year ended 31 July 2007

11. Tangible fixed assets

	University Land and Buildings £'000	University Equipment £'000	University Total £'000	Companies Land and Buildings £'000	Companies Equipment £'000	Consolidated Total £'000
Cost						
At 1 August 2006	109,300	2,013	111,313	24,699	197	136,209
Additions	13,571	2,265	15,836	0	6	15,842
Disposals	(606)	(8)	(614)	0	(6)	(620)
At 31 July 2007	122,265	4,270	126,535	24,699	197	151,431
Depreciation						
At 1 August 2006	16,367	934	17,301	1,389	153	18,843
Charge for year	2,650	809	3,459	463	10	3,932
Depreciation on disposals	(221)	0	(221)	0	(5)	(226)
At 31 July 2007	18,796	1,743	20,539	1,852	158	22,549
Net book value						
At 31 July 2007	103,469	2,527	105,996	22,847	39	128,882
At 1 August 2006	92,933	1,079	94,012	23,310	44	117,366

University Land and Buildings include £4.082m (2005-06 £4.082m) in respect of freehold land which is not depreciated and leasehold properties with a net book value of £1.393m (2005-06 £1.426m)

University Land and Buildings include £2.325m (2005-06 £26.399m) for assets in the course of construction and for which no depreciation charge has been made.

Additions to University land and buildings in the year includes expenditure of £5.25m on the construction of the Southend campus, £1.65m on the new Lecture Theatre and £3.98m on the new Social Sciences Research Centre.

Land, buildings and equipment with a net book value of £51.719m at 31 July 2007 have been funded by capital grants of £29.162m and other capital grants and gifts of £22.557m

12. Investments

	Consolidated		University	
	2006-07 £'000	2005-06 £'000	2006-07 £'000	2005-06 £'000
At 1 August 2006	309	474	15,392	15,557
Disposal of investments	0	(170)	0	(170)
Revaluations credited to the revaluation reserve	0	5	0	5
At 31 July 2007	309	309	15,392	15,392
Comprising:				
Treasury gilts	262	262	262	262
University of Essex Research Park Holdings Ltd	0	0	12,191	12,191
Universal Accommodation Group Ltd	0	0	2,893	2,893
Other investments	47	47	46	46
	309	309	15,392	15,392

Land designated for the development of a Research Park is held by the University of Essex Research Park Holdings Ltd, a wholly owned subsidiary.

Details of investments in all subsidiary undertakings are included in note 30.

Notes to the Financial Statements

For the year ended 31 July 2007

13. Endowment assets

	2006-07 £'000	2005-06 £'000
Balance at 1 August 2006	11,970	10,952
Additions	14	400
Appreciation of investments	679	1,019
(Decrease)/increase in cash balances held at fund managers	(16)	(401)
At 31 July 2007	12,647	11,970
Represented by:		
Fixed interest stocks	1,195	1,258
Equities	10,936	10,193
Cash balances	516	519
Total endowment assets at market value	12,647	11,970

14. Debtors

	2006-07 £'000	Consolidated 2005-06 £'000	2006-07 £'000	University 2005-06 £'000
Trade debtors	1,772	2,133	1,696	1,898
Student fees	566	479	566	479
Research debtors	2,599	3,341	2,599	3,341
Prepayments and accrued income	942	96	942	96
Amount owed by Students' Union within one year	0	132	0	132
Amounts owed by subsidiary undertakings	0	0	1,300	372
Total amounts falling due within one year	5,879	6,181	7,103	6,318
Long-term debtor - Students' Union	0	741	0	741
Long-term debtor - Universal Accommodation Group	0	0	20,654	21,648
Long-term debtor - Carisbrooke Essex Partnership.	750	0	750	0
	6,629	6,922	28,507	28,707

On acquisition of Universal Accommodation Group Ltd in 2004, the University loaned the company £21.779m in order for the company to repay its external debt. The debt owed by the Students' Union was written off during the year.

15. Creditors: amounts falling due within one year

	2006-07 £'000	Consolidated 2005-06 £'000	2006-07 £'000	University 2005-06 £'000
Mortgages and unsecured loans	2,030	2,030	2,030	2,030
Payments received in advance	3,734	1,919	3,734	1,919
Research creditors	2,032	2,503	2,032	2,503
Trade creditors	2,261	2,681	2,205	2,620
Social security and other taxation payable	1,329	1,234	1,306	1,215
Accruals	5,733	8,169	5,620	7,994
	17,119	18,536	16,927	18,281

Notes to the Financial Statements

For the year ended 31 July 2007

16. Creditors: amounts falling due after more than one year

	Consolidated		University	
	2006-07 £'000	2005-06 £'000	2006-07 £'000	2005-06 £'000
Loans secured on property:				
repayable between one and two years	2,030	2,030	2,030	2,030
repayable between two and five years	6,090	6,090	6,090	6,090
repayable after five years	30,472	32,502	30,472	32,502
	38,592	40,622	38,592	40,622

Loans of £40.6m (£42.7m 2005-06) secured on the freehold property of the University are repayable by instalments falling due between 1 August 2007 and 10 June 2029.

The University has 5 interest rate swaps reflecting its policy of ensuring circa 68% of debt outstanding is covered by fixed interest payments. The average weighted interest rate on total debt, including interest rate swaps, was 5.6% for the financial year.

As at 31 July 2007, the University's derivative financial instruments had a fair value of £0.635m.

17. Provisions for liabilities and charges

	Consolidated and University				Total £'000
	Part-time employees £'000	Future severances £'000	Early retirement £'000	VAT contingency £'000	
At 1 August 2006	201	113	243	248	805
Utilised in year	(3)	(113)	(47)	(248)	(411)
Transfers (to)/from income and expenditure account	399	407	17	0	823
At 31 July 2007	597	407	213	0	1,217

Decisions by the European Court of Justice in relation to part-time employees led to the creation of a provision to meet pension liabilities in respect of existing and former members of staff covering the period from 1977 to date.

The future severances provision exists to meet the costs of employees who have agreed to take early retirement under the University's Early Retirement Scheme. The majority of this provision will be utilised during the next financial year.

The early retirement provision has been set up to meet enhanced unfunded pension benefits for former staff who are members of the Local Government Pension Scheme. It is estimated that the provision will be fully utilised by 2016.

Provision was made in 2004-05 to meet a potential VAT liability arising from the development of the University Quays student residential accommodation. This amount was paid to H M Revenue and Customs during the year.

Notes to the Financial Statements

For the year ended 31 July 2007

18. Deferred capital grants and gifts

	Consolidated and University		
	Funding Council £'000	Other grants £'000	Total £'000
At 1 August 2006			
Buildings	22,073	21,368	43,441
Equipment	91	106	197
	22,164	21,474	43,638
Cash received			
Buildings	6,778	1,577	8,355
Equipment	1,410	0	1,410
	8,188	1,577	9,765
Released to income and expenditure account (notes 1, 3 and 4):			
Buildings	(880)	(441)	(1,321)
Equipment	(310)	(53)	(363)
	(1,190)	(494)	(1,684)
At 31st July 2007			
Buildings	27,971	22,504	50,475
Equipment	1,191	53	1,244
	29,162	22,557	51,719

Grants received in the year included £4.5m from HEFCE. In addition NHS trusts and the Department of Communities and Local Government contributed £1.5m for the Southend campus development.

Grants released to the income and expenditure account are to fund depreciation charges as shown in note 10.

19. Endowments

	Consolidated and University		
	Specific £'000	General £'000	Total £'000
At 1 August 2006	2,522	9,448	11,970
Additions	14	0	14
Appreciation of endowment asset investments	88	591	679
Income for year (note 5)	107	349	456
Expenditure for year	(123)	(349)	(472)
At 31st July 2007	2,608	10,039	12,647
Representing:			
Specific endowments	2,608	0	2,608
Research endowment fund	0	9,690	9,690
Other general endowments	0	349	349
	2,608	10,039	12,647

20. Revaluation Reserve

	Consolidated and University £'000
At 1 August 2006	114
Revaluations in the year	0
At 31st July 2007	114

Notes to the Financial Statements

For the year ended 31 July 2007

21. Movement on general reserves

	Consolidated		University	
	2006-07 £'000	2005-06 £'000	2006-07 £'000	2005-06 £'000
At 1 August as previously stated	21,851	18,789	35,180	31,806
Surplus retained for the year	5,295	3,249	5,593	3,561
Transfer from revaluation reserve	0	45	0	45
Actuarial gain (loss) in respect of pension schemes	1,948	(232)	1,948	(232)
At 31 July	29,094	21,851	42,721	35,180
Balance represented by:				
Pension reserve	(12,383)	(14,257)	(12,383)	(14,257)
Income and expenditure account excluding pension reserve	41,477	36,108	55,030	49,437
At 31 July	29,094	21,851	42,647	35,180

University reserves includes an amount of £12,121,000 resulting from the transfer of land that had £nil net book value from the University to University of Essex Research Park Holdings Ltd.

22. Capital commitments

As at 31 July 2007, the University was committed to £8m capital expenditure on new buildings (£11.3m 2005-06) including the completion of the HHS building (£3.5m), the Psychology Extension (£2.3m). The HHS Building and the Psychology extension work will be partly funded by capital grants amounting to £3.5m from HEFCE.

23. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2006-07 £'000	2005-06 £'000
Surplus on continuing operations after depreciation of assets at cost	(872)	3,244
Depreciation (note 10)	3,921	3,030
Deferred capital grants released to income (note 18)	(1,684)	(912)
(Increase) /Decrease in investment assets	(139)	15
Decrease/(increase) in stocks	180	61
Decrease/(increase) in debtors (note 14)	293	3,109
(Decrease)/increase in creditors	(1,417)	(551)
(Decrease)/increase in provisions (note 17)	412	(407)
(Profit)/loss on sale of tangible fixed assets	0	2
(Profit)/loss on sale of investments	0	(3)
Endowment and investment income	(1,247)	(1,153)
Interest payable (note 9)	2,651	2,480
Pension cost less contributions payable	74	(542)
Net cash inflow from operating activities	2,172	8,373

Notes to the Financial Statements

For the year ended 31 July 2007

	Consolidated			
	2006-07 £'000	2005-06 £'000		
24. Returns on investment and servicing of finance				
Income from endowment asset investments	456	429		
Income from investments	791	724		
Interest paid	(2,651)	(2,456)		
	(1,404)	(1,303)		
25. Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 11)	(15,842)	(23,674)		
Payments to acquire endowment assets	0	(400)		
Receipts from sale of tangible fixed assets	6,555	0		
Receipts from sale of investments	0	173		
Deferred capital grants received	9,765	26,225		
Endowments received	14	4		
	492	2,328		
26. Management of liquid resources				
Decrease/(increase) in current asset investments	2,491	(12,364)		
Movement in endowment assets	3	401		
	2,494	(11,963)		
27. Consolidated financing				
Loan repayments	(2,030)	(2,030)		
	(2,030)	(2,030)		
Balances at 1 August	42,652	44,682		
Balances at 31 July	40,622	42,652		
28. Analysis of changes in net debt				
	At 1 August 2006 £'000	Cash flows £'000	Other changes £'000	At 31 July 2007 £'000
Cash at bank and in hand	2,790	1,724	0	4,514
Endowment asset investments	519	(3)	0	516
	3,309	1,721	0	5,030
Current asset investments	12,364	(2,491)	0	9,873
	15,673	(770)	0	14,903
Debt due within one year	(2,030)	2,030	(2,030)	(2,030)
Debt due after one year	(40,622)	0	2,030	(38,592)
	(26,979)	1,260	0	(25,719)

Notes to the Financial Statements

For the year ended 31 July 2007

29. Pension Schemes

The University has three principal pension schemes for employees. These are the Universities Superannuation Scheme (USS) for academic and related staff, and the Local Government Pension Scheme (LGPS) and the University of Essex Pension Scheme (UEPS) for other staff. The assets of the schemes are held in separate trustee-administered funds. All three schemes are defined benefit schemes and are contracted out of the State Earnings-Related Pension Scheme.

LGPS became a closed scheme from August 1997 and subsequently all non-academic and related staff who are not members of a pension scheme could join the UEPS. As UEPS became a closed scheme from March 2004, all new staff are now eligible to join USS.

The total pension cost for the University and its subsidiary undertakings was:

	2006-07 £'000	2005-06 £'000
Contribution to USS	4,913	4,453
Contribution to LGPS	571	570
LGPS additional University costs to fund past service deficiency	719	602
Contributions to UEPS	618	856
Uof EPS additional University costs to fund past service deficiency	176	0
Net adjustment from FRS 17 staff costs	(267)	(653)
Total pension cost	6,730	5,828

The total FRS 17 pension liability for the University and its subsidiary undertakings was:

	2006-07 £'000	2005-06 £'000
LGPS pension liability	(10,721)	(12,034)
UEPS pension liability	(1,662)	(2,223)
Total pension liability	(12,383)	(14,257)

Universities Superannuation Scheme (USS)

This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contribution payable to the scheme in respect of the accounting period.

The latest complete actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities, the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities, it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience, but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males	19.8 years
Females	22.8 years

At the valuation date, the market value of the assets of the whole scheme was £21,740m and the value of the past service liabilities was £28,308m, indicating a deficit of £6,568m. The assets were therefore sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Notes to the Financial Statements

For the year ended 31 July 2007

Universities Superannuation Scheme (continued)

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pension Act 1995, the scheme was 126% funded at that date. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded. On a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company. Using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is primarily due to the investment return on the scheme's assets since March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

The institution contribution rate required for future service benefits alone at the date of valuation was 14.3% of pensionable salaries, but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries. Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact upon scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

The USS is a last man standing scheme so that in the event of the insolvency of any participating employers in the USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long term equity investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cashflow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of the covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of the valuation. The contribution rate for employees is 6.35%.

Notes to the Financial Statements

For the year ended 31 July 2007

Local Government Pension Scheme (LGPS)

The Essex County Council LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2005-06 were 14.46% for the University (12.05% manual workers) and 6% for employees (5% for manual workers). In addition, the University made a further payment of £718,967 (2005-06 £542,700) towards the scheme deficiency.

The pensions cost is assessed every three years in accordance with the advice of a qualified actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation	31 March 2004
Actuarial method	Projected Unit
Investment returns per annum	7.1% per annum
Pension increases per annum	2.8% per annum
Salary scale increases per annum	4.3% per annum
Market value of assets at date of last valuation (whole fund)	£1,916 million

Proportion of members' accrued benefits covered by the actuarial value of assets (whole fund) 71.4%.

Actuarial Assumptions

A full actuarial valuation was carried out at 31 March 2004, and updated to 31 July 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-07 %	At 31-Jul-06 %	At 31-Jul-05 %
Financial Assumptions			
Rate of increase in salaries	4.70	4.50	4.20
Rate of increase in pension payments	3.20	3.00	2.70
Expected return on assets	7.01	6.41	6.85
Discount rate for liabilities	5.80	5.10	5.00
Inflation assumptions	3.20	3.00	2.70
Split of assets between investment categories			
Equities	70.60	67.80	69.80
Government Bonds	8.40	10.70	11.20
Other Bonds	6.30	6.80	5.00
Property	12.40	12.60	11.80
Cash	2.30	2.10	2.20

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31-Jul-07 %	Whole fund value at 31-Jul-07 £'000	Long-term rate of return expected at 31-Jul-06 %	Whole fund value at 31-Jul-06 £'000	Long-term rate of return expected at 31-Jul-05 %	Whole fund value at 31-Jul-05 £'000
Equities	7.50	2,220,000	7.00	1,839,000	7.50	1,701,000
Government Bonds	4.90	264,000	4.40	290,000	4.40	273,000
Other Bonds	5.80	198,000	5.10	184,000	5.00	122,000
Property	6.50	390,000	6.00	342,000	6.50	288,000
Cash	5.75	72,000	4.50	57,000	4.75	54,000
Total market value of assets		3,144,000		2,712,000		2,438,000
University of Essex estimated asset share		31,421		28,502		25,028
Present value of scheme liabilities		(42,142)		(40,536)		(37,629)
(Deficit) in the scheme		(10,721)		(12,034)		(12,601)
		75%		70%		67%

	At 31-Jul-07	At 31-Jul-06
Mortality and life expectancy assumptions		
Post retirement mortality assumptions:		
Active members	PA 92mc + 1 year (YOB 1965)	PA92 Base - 2 years
Current Pensioners	PA92mc + 2 years (YOB 1935)	PA92 Base - 1 year
Life expectancy		
Male (Female) current pensioner aged 65	22.2 (25.0) years	18.6 (21.6) years
Male (Female) future pensioner aged 65	19.7 (22.6) years	17.8 (20.7) years

Notes to the Financial Statements

For the year ended 31 July 2007

Local Government Pension Scheme (LGPS) (continued)

History of Experience Gains and Losses

	2006-07 £000	2005-06 £000	2004-05 £'000	2003-04 £'000	2002-03 £'000
Difference between the expected and actual return on scheme assets:					
Amount	1,307	1,959	3,294	469	(368)
Percentage of scheme assets	4.2%	6.9%	13.2%	2.1%	1.8%
Experience gains arising on the scheme liabilities:					
Amount	0	869	484	0	0
Percentage of scheme liabilities	0.0%	2.1%	1.3%	0.0%	0.0%
Total amount recognised in the Statement of total recognised gains and losses:					
Amount	1,201	(73)	426	469	(3,010)
Percentage of the present value of scheme liabilities	2.8%	0.0%	1.1%	1.3%	8.9%
				At	At
				31-Jul-07	31-Jul-06
				£'000	£'000

Analysis of amount charged to income and expenditure account

Current service charge				(774)	(815)
Past service gain (cost)				(20)	586
Curtailment (loss)				(51)	(7)
Total operating charge				(845)	(236)

Analysis of net return on pension scheme

Expected return on pension scheme assets				1,714	1,609
Interest on pension liabilities				(2,051)	(1,871)
Net return				(337)	(262)

Amount recognised in the statement of total recognised gains and losses (STRGL)

Actual return less expected return on pension scheme assets				1,307	1,959
Experience gains and losses arising on the scheme liabilities				0	(869)
Changes in assumptions underlying the present value of scheme liabilities				(106)	(1,163)
Actuarial (loss)/gain recognised in the STRGL				1,201	(73)

Movements in (deficit) during the year

(Deficit) in scheme at 1 August 2006				(12,034)	(12,601)
Movements in the year:					
Current service charge				(774)	(815)
Contributions				1,294	1,138
Past service gain (cost)/Curtailment/Settlement gain				(71)	579
Net interest/return on assets				(337)	(262)
Actuarial (loss)/gain				1,201	(73)
(Deficit) in scheme at 31 July 2007				(10,721)	(12,034)

University of Essex Pension Scheme (UEPS)

The UEPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2006-07 were 18% for the University (2005-06 18%) and 6% for employees. In addition, the University is making annual contributions of £176,000 in each of the 10 years from 1 August 2005 towards the scheme deficiency.

The pensions cost is assessed every three years in accordance with the advice of a qualified actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation	1 August 2004
Actuarial method	Projected Unit
Investment returns per annum	6.5% per annum
Pension increases per annum	2.9% per annum
Salary scale increases per annum	4.4% per annum
Market value of assets at date of last valuation	£3,324,164

Proportion of members' accrued benefits covered by the actuarial value of assets 93%.

Notes to the Financial Statements

For the year ended 31 July 2007

University of Essex Pension Scheme (continued)

Actuarial Assumptions

A full actuarial valuation was carried out at 1 August 2004, and updated to 31 July 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-07 %	At 31-Jul-06 %	At 31-Jul-05 %
Financial Assumptions			
Rate of increase in salaries	4.70	4.00	3.70
Rate of increase in pension payments	3.20	3.00	2.70
Expected return on assets	6.50	6.70	6.50
Discount rate for liabilities	5.80	5.10	5.00
Inflation assumptions	3.20	3.00	2.70

Split of assets between investment categories

Equities	86.84	97.34	97.04
Corporate bonds	4.39	0.93	0.00
Government bonds	6.70	1.42	0.00
Cash	2.07	0.31	2.96

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31-Jul-07 %	Whole fund value at 31-Jul-07 £'000	Long-term rate of return expected at 31-Jul-06 %	Whole fund value at 31-Jul-06 £'000	Long-term rate of return expected at 31-Jul-05 %	Whole fund value at 31-Jul-05 £'000
Equities	7.5	7,117	6.8	6,580	6.9	5,056
Corporate bonds	5.8	360	5.1	63	5.0	0
Government bonds	4.9	549	4.3	96	4.4	0
Cash	5.8	170	4.5	21	4.5	154
Total market value of assets		8,196		6,760		5,210
Present value of scheme liabilities		(9,858)		(8,983)		(7,176)
(Deficit) in the scheme		(1,662)		(2,223)		(1,966)
		83%		75%		73%

Mortality and life expectancy assumptions

FRS disclosures up to July 2006 used the standard PXA92 series tables as used in the formal actuarial valuation in 2004. The trustees have agreed that the formal funding valuation as at 31 July 2007 will be based on the standard mortality table PXA92 based on each member's actual year of birth and allowing for future improvements in mortality in line with the medium cohort projections. The University agreed to adopt these tables to calculate the liabilities for the FRS 17 disclosure as at 31 July 2007

History of Experience Gains and Losses

	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000	2002-03 £'000
Difference between the expected and actual return on scheme assets:					
Amount	151	238	676	72	(93)
Percentage of scheme assets	1.8%	3.5%	13.0%	2.2%	-4.6%
Experience gains arising on the scheme liabilities:					
Amount	353	0	(220)	(71)	141
Percentage of scheme liabilities	3.6%	0.0%	3.1%	-1.7%	5.1%
Total amount recognised in the Statement of total recognised gains and losses:					
Amount	747	(159)	(938)	115	(444)
Percentage of the present value of scheme liabilities	7.6%	1.8%	13.1%	2.7%	-15.9%

Notes to the Financial Statements

For the year ended 31 July 2007

University of Essex Pension Scheme (continued)

	At 31-Jul-07 £'000	At 31-Jul-06 £'000
Analysis of amount charged to income and expenditure account		
Current service charge	(854)	(919)
Past service cost	0	0
Total operating charge	(854)	(919)
Analysis of net return on pension scheme		
Expected return on pension scheme assets	479	388
Interest on pension liabilities	(483)	(384)
Net return	(4)	4
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	151	238
Experience gains and losses arising on the scheme liabilities	353	0
Changes in assumptions underlying the present value of scheme liabilities	243	(397)
Actuarial loss recognised in the STRGL	747	(159)
Movements in surplus/(deficit) during the year		
(Deficit) in scheme at 1 August 2006	(2,223)	(1,966)
Movements in the year:		
Current service charge	(854)	(919)
Contributions	845	836
Other finance income	0	147
Other outgoings	(173)	(166)
Past service costs	0	0
Net interest/return on assets	(4)	4
Actuarial losses	747	(159)
(Deficit) in scheme at 31 July 2007	(1,662)	(2,223)

30. University Companies

The University has the following wholly owned subsidiary companies:

Company	At 31 July 2007 £1 Shares	At 31 July 2006 £1 Shares	Activity
Wivenhoe Technology Ltd	2	2	Acquisition, protection and licensing of intellectual property from the University
W P Management Ltd	2	2	Management of commercial activities at the University
University of Essex Research Park Holdings Ltd	12,190,682	12,190,682	Holding land on behalf of the University for development as a Research Park.
University of Essex Research Park Ltd	50,002	50,002	Development and marketing of a Research Park.
University of Essex Environmental Facilities Ltd	100,000	100,000	Dormant throughout the year
East 15 Acting School Ltd	2	2	Dormant throughout the year
Wivenhoe Building Management Services Ltd	2	2	Dormant throughout the year
Universal Accommodation Group Ltd	1	1	Developing student accommodation

Notes to the Financial Statements

For the year ended 31 July 2007

University Companies (continued)

The level of surplus/(deficit) from each of the wholly-owned trading subsidiaries was as follows:

	Year-end date	2006-07 £'000	2005-06 £'000
Wholly-owned subsidiaries:			
Wivenhoe Technology Ltd	31 July	139	145
W P Management Ltd	31 July	121	281
University of Essex Research Park Holdings Ltd	31 July	(1)	0
Universal Accommodation Group Ltd	31 July	(162)	(247)
University of Essex Research Park Ltd	31 July	0	0
		97	179

These results have been included in the consolidated financial statements.

A joint venture agreement has been signed with Carisbrooke Alliance Ltd, setting up the Carisbrooke-Essex Partnership. The aim of this venture is to establish a research park on campus. The University has transferred 40 acres of land into a wholly-owned subsidiary company, University of Essex Research Park Holdings Ltd, in exchange for £12,190,680 of redeemable preference shares.

Wivenhoe Technology Ltd owned 500 Class A £1 ordinary shares in Nesstar Ltd, a company registered in England and Wales. This represented 50% of the company's issued share capital. The company was involved in the development of data software, but ceased to trade in April 2007 and an application has been made to Companies House for the company to be struck off the register.

University Campus Suffolk Ltd is a company limited by guarantee, owned equally by the University of Essex and the University of East Anglia, to promote the establishment of a university campus in Suffolk.

The Carisbrooke-Essex Partnership, Nesstar Ltd and University Campus Suffolk Ltd have been accounted for as joint ventures in accordance with FRS 9.

The level of surplus (deficit) from each of the joint ventures was as follows:

Company	Year-end date	2006-07 £'000	2005-06 £'000
Carisbrooke-Essex Partnership	31 July	(274)	24
Nesstar Ltd	30 June	383	(39)
University Campus Suffolk Ltd	31 July	0	0
		109	(15)

31. Hardship Funds

	University	
	2006-07 £'000	2005-06 £'000
Balance brought forward at 1 August	42	36
Funding council grants received	346	392
Interest earned	10	8
	398	436
Disbursed to students	318	405
Balance unspent at 31 July	80	31

These funding council grants are available solely for students; the University acts only as the paying agent. The grants and related disbursements are therefore excluded from the Income & Expenditure Account.

Notes to the Financial Statements

For the year ended 31 July 2007

32. Related Party Transactions

The related parties of the University are the wholly and partially owned subsidiary undertakings (listed in note 30 of these Financial Statements), the University of Essex Students' Union and the members of the Council.

In the preparation of these Financial Statements, the University has taken advantage of the exemptions contained within Financial Reporting Standard 8 relating to transactions and balances eliminated on consolidation.

All transactions and balances with the subsidiary undertakings have been eliminated on consolidation and therefore no disclosure is given.

Due to the level and nature of transactions between the organisations, the University of Essex Students' Union is considered to be a related party. In the year to 31 July 2006 the University paid the Union a grant of £627,290 (2005-06: £393,700), and provided accommodation free of rent. The University also made the Union a further one-off grant of £300,000 towards the cost of fitting out accommodation at the Southend campus.

Prior to 2005-06, the University had loaned the Union £958,950 to meet the cost of its refurbishment programme. The loan bore a fixed interest rate of 5.25% and was repayable over 8 years. The amount of loan outstanding at 31 July 2007 was £441,000 (2005-06 £573,000) (see note 14). A further interest-free loan of £300,000, with a 4-year repayment holiday, was granted in 2005-06. To ensure that the Union retained sufficient reserves and cash balances, the University agreed to cancel both loans effective at 31 July 2007.

For the 2006-07 year, the Union's income and expenditure account shows the following:

	2006-07	2005-06
	£'000	£'000
Income	1,112	984
Expenditure	1,136	1,121
Operating (deficit)/surplus before and after transfers from/(to) reserves	(24)	(137)

The comparative figures for 2005-06 have been re-stated as audited accounts were not available until after completion of the University's financial statements for that year.

All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's Financial Regulations and normal procurement procedures. Given that the University Council includes members drawn from public and private sector organisations, some transactions take place with organisations in which a member of Council may have an interest. However, these transactions occur at the operational level where they are instigated by members of staff and approved by senior management under delegated authority. There is no direct benefit to members of Council.

Members of Council (and its sub-committees) are required to declare all outside interests. When an item arises in which a member has an interest, it must be declared and the member concerned may not take part in that debate or any related decisions.

Five-Year Summary of Financial Position (unaudited)

For the year ended 31 July

	2002-03 £'000 As restated	2003-04 £'000 As restated	2004-05 £'000 As restated	2005-06 £'000	2006-07 £'000
Income and Expenditure Account					
Income					
Funding council grants	24,313	25,772	28,076	29,996	33,741
Tuition fees and educational contracts	23,639	25,574	26,964	26,028	30,303
Research grants and contracts	13,280	12,631	14,782	15,203	14,268
Other income	14,999	18,386	18,388	20,893	22,107
Endowment and investment income	1,217	913	899	1,153	1,247
Total	77,448	83,276	89,109	93,273	101,666
Less share of joint venture income	(295)	(408)	(357)	(899)	(971)
Total income	77,153	82,868	88,752	92,374	100,695
Expenditure					
Staff costs	45,960	50,643	54,625	58,147	62,736
Other operating expenses	24,401	25,313	27,843	25,458	32,248
Depreciation	2,038	2,516	2,674	3,030	3,921
Interest paid	1,404	2,971	2,667	2,480	2,651
Total expenditure	73,803	81,443	87,809	89,115	101,556
Surplus after depreciation of assets at cost	3,350	1,425	943	3,259	(861)
Share of operating loss in joint venture	(137)	(102)	(152)	(15)	(11)
Profit on disposal of Fixed Asset	6,151				
Surplus for the year	3,213	1,323	791	3,244	5,279
Transfer of surplus/(deficit) to endowment funds	56	84	22	(5)	(16)
Transfer of surplus to reserves	3,157	1,239	769	3,249	5,295
	3,213	1,323	791	3,244	5,279
Balance Sheet as at 31 July					
Total fixed assets	81,813	91,554	96,814	117,276	128,931
Endowment assets	8,495	9,313	10,952	11,970	12,647
Current assets	16,719	15,478	17,948	22,547	21,307
Creditors: amounts falling due within one year	(11,263)	(10,507)	(14,360)	(18,536)	(17,119)
Total assets less current liabilities	95,764	105,838	111,354	133,257	145,766
Creditors: amounts falling due after more than one year	(43,560)	(43,947)	(42,652)	(40,622)	(38,592)
Provisions for liabilities	(856)	(584)	(1,212)	(805)	(1,217)
Pension liability	(13,706)	(13,741)	(14,567)	(14,257)	(12,383)
Net assets	37,642	47,566	52,923	77,573	93,574
Deferred capital grants	12,345	19,628	23,028	43,638	51,719
Endowments	8,495	9,313	10,952	11,970	12,647
Reserves	16,802	18,625	18,943	21,965	29,208
Total funds	37,642	47,566	52,923	77,573	93,574
Financial Statistics					
Surplus as a percentage of turnover	4.3%	1.5%	0.9%	3.6%	5.2%
Margin on research grants and contracts (income less direct expenditure/income)	19.7%	18.0%	20.9%	24.6%	20.9%
Margin on residences, catering & conferences (income less direct expenditure/income)	14.8%	4.9%	10.0%	13.6%	13.8%
Current ratio (current assets/current liabilities)	1.5	1.5	1.2	1.2	1.2
Debt as percentage of total turnover	57.1%	55.5%	50.1%	45.7%	37.7%
Liquidity days (number of days of average expenditure excluding depreciation supported by cash balances)	45	37	32	64	54
Debtor days (number of days income excluding Funding Council grant represented by debtors due within one year)	34	42	52	36	32



